

## **EXHIBIT 28**



**COMMONWEALTH OF PUERTO RICO**

Basic Financial Statements

and Required Supplementary Information

June 30, 2013

(With Independent Auditors' Report Thereon)

## COMMONWEALTH OF PUERTO RICO

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## COMMONWEALTH OF PUERTO RICO

### Notes to Basic Financial Statements

June 30, 2013

#### (8) Pledges of Receivables and Future Revenues

The Commonwealth has pledged the first two point seventy-five (2.75%) percent of the sales and use tax for the repayment of certain outstanding obligations of the Commonwealth. During 2013, COFINA, a blended component unit of the Commonwealth, responsible for the financing, payments and retirement of certain debt obligations of the Commonwealth, has issued bond anticipation notes for approximately \$333.3 million payable on September 30, 2014. The Commonwealth has committed to appropriate each year, from the sales and use tax, amounts sufficient to cover the principal and interest requirements on the debt issued by COFINA. COFINA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is \$35.5 billion and \$17.7 billion, respectively. The pledged sale and use tax base amount for the fiscal year ended June 30, 2013 amounted to approximately \$619 million. For fiscal year 2013, interest paid by COFINA amounted approximately to \$643 million and issuance costs of approximately \$600 thousands on the aforementioned bond anticipation notes issued. Sales and use tax revenue recognized by the Commonwealth was approximately \$543 million.

Rum manufactured in Puerto Rico is subject to federal excise taxes; however, these are returned by the U.S. Internal Revenue Service (IRS) to the Commonwealth. Act No. 44, as amended, requires that in each fiscal year through fiscal year 2057, the first \$117 million, of certain federal excise taxes received by the Commonwealth be transferred to the Puerto Rico Infrastructure Financing Authority (PRIFA), a blended component unit of the Commonwealth. Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. Treasury and returned to the Commonwealth. The Commonwealth has pledged these taxes for the repayment of PRIFA's Special Tax Revenue Bonds (the Bonds). The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRIFA. PRIFA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. The federal excise taxes securing the Bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. The level of federal excise taxes to be received by the Commonwealth is currently expected to decrease, although the exact amount cannot be determined. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, Act No. 44 requires that PRIFA request and the Director of the Office of Management and Budget of the Commonwealth include in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Commonwealth's Legislature, however, is not obligated to make the necessary appropriation to cover such deficiency. Total principal and interest remaining on the secured debt is \$2.5 billion and \$1.3 billion, respectively. For the year ended June 30, 2013, of the total of \$117 million received by PRIFA from the Commonwealth, a total of \$113 million was pledged for the debt service of the Special Tax Revenue Bonds. For fiscal year 2013, principal and interest paid on Special Tax Revenue Bonds by PRIFA amounted to \$112.1 million.

Also, the Commonwealth has pledged part of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes (up to \$11 million monthly but no more than \$120 million annually) derived from excise taxes over crude oil and its derivatives and \$15 per vehicle per year from motor vehicle license fees for the repayment of the PRHTA Revenue Bonds. On June 25, 2013, as described in note 7, the Commonwealth enacted Act No. 31, amending the aforementioned gasoline excise tax rates and distributions, and eliminating the \$120 million ceiling; therefore providing additional sources for the

## COMMONWEALTH OF PUERTO RICO

### General Fund

Year ended June 30, 2013

#### Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

***Public Buildings Authority Special Revenue Fund*** – The operating fund of the Public Buildings Authority, a blended component unit, used to account for the operation, maintenance, equipment replacement, and other extraordinary operation and maintenance costs of the buildings and facilities that, when constructed, are leased to the Commonwealth's primary government agencies.

***The Children's Trust Special Revenue Fund*** – The special revenue fund of the Children's Trust, a blended component unit, is used to account for the money received by the Commonwealth from a global settlement agreement dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United State of America, including the Commonwealth. The financial resources received by this fund are used to carry out projects aimed at promoting the well-being of children and youth of Puerto Rico.

***Puerto Rico Infrastructure Financing Authority's Special Revenue Fund*** – The special revenue fund of the Puerto Rico Infrastructure Financing Authority, a blended component unit, is used to account principally for the moneys received by the Commonwealth, up to \$117 million, of certain federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the Unites States, which are collected by the US Treasury and returned to the Commonwealth. Under Act No. 44 of June 21, 1988, as amended, the Commonwealth transfers to this fund the first \$117 million of these federal excise taxes reimbursed, which are subsequently transferred to the Puerto Rico Infrastructure Financing Authority's Debt Service Fund to provide for the debt service of its special tax revenue bonds. This special revenue fund also receives ARRA funds for the weatherization program aimed at converting certain government buildings into eco-friendly locations.

***Special Communities Perpetual Trust's Special Revenue Fund*** – The special revenue fund of the Special Communities Perpetual Trust, a blended component unit, is used to account for the moneys received from the Governmental Development Bank, through a line of credit financing and cash contributions, upon inception of the Special Communities Perpetual Trust. The financial resources received by this fund are used to carry out development projects that address the infrastructure and housing needs of certain underprivileged communities.

#### Debt Service Funds

The debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, and related costs other than bonds payable from operations of proprietary fund types, pension trust funds, and discretely presented component units. Long-term debt and interest due on July 1 of the following year are accounted for as a fund liability if resources are available as of June 30 for its payment.

***The Children's Trust Debt Service Fund*** – The debt service fund of The Children's Trust accounts for the financial resources that are restricted, committed, or assigned to expenditure for the payment of interest and principal on long-term obligations financed with moneys to be received by the Commonwealth from the global settlement agreement signed by certain tobacco companies.